

TRANSNET



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# REQUEST FOR PROPOSALS

**Transnet Engineering Capital Assets Leasing Company**

**RFP NUMBER TE/2023/04/0019/26626/RFP**

## **Briefing Session**

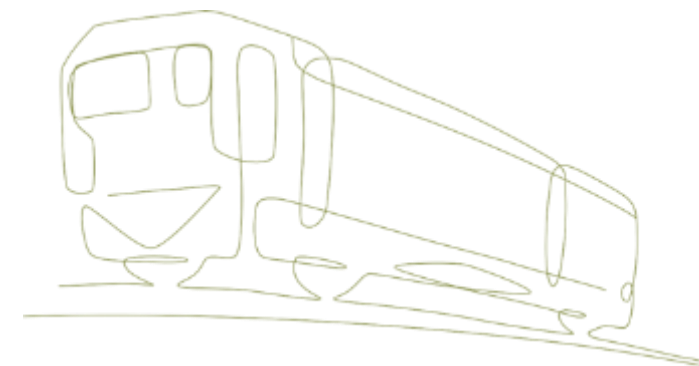
08 May 2023

9:00am and 3:00pm

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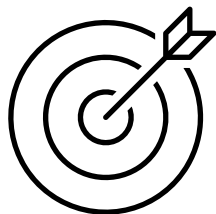
# AGENDA

- 1) Introduction and Background**
- 2) Question and Answer Session



# PURPOSE OF THE RFP

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- Transnet Engineering (TE) to find a partner, a Person or Consortium, with whom to establish a new company and develop market opportunities together.
- The partner must have access to financial resources to support the development of the new capital assets leasing company and have leasing capabilities to enable successful operations of the company.



# BACKGROUND

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- Transnet Engineering (TE) has adopted a strategy involving the establishment of a rolling stock and port equipment leasing company because of:
  - The market trends in the rail and port operating environment
  - Potential market opportunities resulting from opening up the rail network to private operators
- To realize this strategy and capitalize on the potential of the market, TE is seeking to partner with a Person or Consortium who has access to financial resources and with leasing capabilities to support the development and successful operations for the envisioned capital assets leasing company.
- Therefore, Transnet has invited local and international investors interested in partnering with Transnet in the development and implementation of a capital asset leasing commercial venture, to submit Proposals in response to this RFP Procurement Process.
- The objective of the capital asset leasing commercial venture is to pursue domestic (South African) and regional leasing opportunities in rail rolling stock and port equipment.
- Subject to finalisation of the Project Agreements, TE , will collaborate with the Preferred Bidder as shareholders in the new company, on the basis that new company will undertake the development and implementation of the capital assets leasing commercial venture.

# VALUE PROPOSITION

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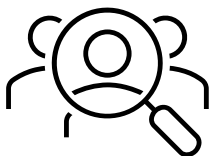
- Transnet is a state-owned company, with the South African Government as the sole shareholder. Its mandate is to:
  - ✓ Assist in lowering the cost of doing business in South Africa;
  - ✓ Enable economic growth; and
  - ✓ Ensure security of supply by providing appropriate port, rail, and pipeline infrastructure in a cost-effective and efficient manner, within acceptable benchmarks
- Transnet is the owner of South Africa's railway, ports and pipelines infrastructure and is structured to provide transport and handling services through its five operating divisions, namely: Transnet Freight Rail (TFR), Transnet Engineering (TE), Transnet National Ports Authority (TNPA), Transnet Port Terminals (TPT), and Transnet Pipelines (TPL).

# VALUE PROPOSITION CONT.

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- Transnet Engineering is the largest engineering in South Africa, with a national footprint and horsepower to provide the services listed below to to Transnet, other SOE's and private sector operators according to certified international and local standards. Products and services:
  - ✓ Engineering services (research, design, development, qualification and certification, condition monitoring, system integration)
  - ✓ Manufacturing,
  - ✓ Refurbishment,
  - ✓ After sales support / maintenance; and
  - ✓ Fleet leasing and management of rail rolling stock and ports equipment,
- TE has successfully developed and manufactured the 'Trans Africa' locomotive (TAL) which is currently in operations in Saldhana Ore line. Further to this, TE has researched, developed, and built the 'Transnet Port Hauler' which is under operational testing at the port of Durban in South Africa.
- TE has no leasing entity as part of its business; however, the business recently concluded the leasing of rolling stock in South Africa and in other Sub-Saharan African countries. Details of the leases are:
  - 125 Container wagons leased for operations in Zambia and Tanzania.
  - 100 Container wagons, 5-year lease in Democratic Republic of Congo (DRC).
  - 3 Trans African Locomotives (TAL) to TFR in South Africa.
- Transnet has access to 100 B-Fleet locomotives and 2000 wagons, which can be injected into NewCo for the asset base for Leaseco. The refurbishment of the fleet will be the responsibility of the NewCo.

# MARKET OPPORTUNITIES AND THE PROJECT

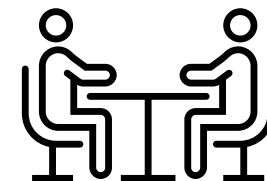


- Preliminary assessments show that several opportunities exist in the South African market that TE, through the Project, can capitalise on. These are not yet quantified.
  - Unmet demand by TFR due to contractual and financial constraints.
  - Proposed rail reforms that will allow third party access to the rail network.
  - Proposed capacity expansion in the Durban Container Terminal (DCT) precinct which will result in an increase in throughput. This will result in the need for more locomotives, wagons, and port haulers.
  - Proposed operating lease on the Container Corridor by TFR which may result in an increased demand for rolling stock.
- A recent market study which involved the railway authorities in Sub-Saharan Africa, viz. Société Nationale des Chemins de fer du Congo (SNCC) in DR Congo, Zambia Railways Limited (ZRL) in Zambia, National Railways of Zimbabwe (NRZ) in Zimbabwe, Eswatini Railways (ESR) in eSwatini and Transnet Freight Rail (TFR) in South Africa found a strong demand for rolling stock which remains unserved. However, this opportunity remains unquantified.
- TE, through the joint development of the business case with private sector partner(s), seeks to quantify these opportunities and develop them further should a viable business case exist.

# PROJECT SCOPE

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- Transnet does not have a rolling stock and/or port equipment leasing company, therefore, as such, no assets will be transferred to NewCo for the implementation of the Project. It will be the responsibility of NewCo to acquire leasing assets and apply for relevant legal and regulatory permits for the operation of NewCo.
- At the time of incorporation of NewCo, the leasing business of TE will be reviewed and where long-term leases exist, the leased assets and contracts will be transferred into the NewCo at fair value.
- The scope of the partnership includes, but is not limited to:
  - Acquisition of capital assets.
  - Developing rolling stock and port equipment leasing capabilities in South Africa.
  - Leasing rolling stock assets in South Africa and to markets outside of South Africa.
  - Development of business opportunities.
  - Ensuring efficient and effective management of NewCo.
  - Ensuring that the capital assets are well maintained and available for leasing to customers.







# COMMERCIAL AND GOVERNANCE ARRANGEMENT

- A Special Purpose Vehicle will be created for the purposes of implementing the Project.
- This SPV will be created subject to Transnet obtaining all regulatory approvals required to give effect to the transactions which comprise the Project, including but not limited to:
  - Approval from the Minister of Finance and/or the Minister of Public Enterprises to establish NewCo, and dispose of shares in NewCo to the Preferred Bidder, in terms of the PFMA;
  - Approval of the Project in terms of the Competition Act, to the extent required;
  - Exemption from the PFMA for NewCo, to the extent appropriate.
- After incorporation, Transnet and the Preferred Bidder will jointly develop the Project for the domestic and regional markets.
- Transnet and the Preferred Bidder will jointly own, control and operate the NewCo.
- The shareholding of NewCo shall be negotiated between Transnet and the Preferred Bidder at incorporation.
- The NewCo governance arrangements will be negotiated between Transnet and the Preferred Bidder. Governance provisions will be captured in The Memorandum of Incorporation and/or shareholders' agreement in respect of NewCo.

## **NewCo: Memorandum of Incorporation and shareholders' agreement (non exhaustive list of inclusions)**

- % shareholding in NewCo by Transnet and the Preferred Bidder.
- Majority control of the Board.
- Appointment of Board Chairperson.
- Number of votes per director.
- Reserved matters.
- Dividend Policy.
- % required for passing ordinary and special resolutions.
- The quorum required for shareholders meetings, and whether representation is required from both Transnet and the Preferred Bidder.
- Treatment of shareholders' equity if funding is provided disproportionately to equity percentage, and whether or not disproportionate funding will result in equity dilution.
- Power over hiring of executives and managers.
- Dissolution of partnership (performance and material breach)

# ANTICIPATED PROCUREMENT SCHEDULE

## KEY MILESTONES IN THE PROCUREMENT

1.	RFP ISSUE DATE	April 3 , 2023
2.	RFP BRIEFING SESSION	May 8, 2023
3.	CLARIFICATION QUESTION AND ANSWER PERIOD	May 8 to June 15, 2023
4.	BID SUBMISSION DATE (CLOSING DATE FOR SUBMISSION OF BIDDER PROPOSALS)	June 30, 2023
5.	EVALUATION OF PROPOSALS AND ANNOUNCEMENT OF SELECTION OF PREFERRED BIDDER	July 2023
6.	REGULATORY APPROVALS IN TERMS OF PFMA AND OTHER LEGISLATION	August 2023
7.	NEGOTIATION AND COMPLETION OF PROJECT AGREEMENTS	September 2023

# EVALUATION CRITERIA AND METHODOLOGY

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The process of evaluation will be conducted in stages as follows

1. Compliance with Process Criteria (Bidders are to pass the administrative responsiveness test to be considered further in rest of the RFP Process)
2. Compliance with Exclusion Criteria
3. Compliance with the Minimum Financial Criteria (To be eligible for pre-qualification and short-listing, the Bidders must satisfy the Minimum Financial Criteria for eligibility)
4. Evaluation of Minimum Technical Criteria ( Minimum qualifying score required: 70%)

# EVALUATION CRITERIA AND METHODOLOGY CONT.

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## Minimum Financial Criteria for eligibility

- Each Bidder must submit its most recent five (5) years audited, consolidated financial statements (including auditor's report) showing that the profit, EBITDA and operational free cashflow in each of the last five years were positive.
- Solvency: Total Equity/Total Assets must be equal to or exceeds 0.4
- Liquidity Ratio, using the Acid Test Ratio:  $(\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities} \Rightarrow 1$
- Further, the Bidders must declare that since the publication of the latest financial statements, the Bidder's situation has not materially changed, such that the criteria will not be met in the financial statements of the current and subsequent financial years.
- Finally, the Bidder must declare that the Bidder has, to date, not engaged in commitments to the extent that such commitments might affect the Bidder's ability to finance or complete the Project.
- Transnet may require that declarations made by the Bidder in respect of satisfaction of the Minimum Financial Criteria be verified / certified by an independent third party, for the Bidders (and at the Bidder's cost).



# EVALUATION CRITERIA AND METHODOLOGY CONT.

- Bidders who meet the criteria and comply with the minimum financial criteria will have their submissions evaluated further as per the technical evaluation shown in the table.
- The minimum qualifying score for the technical evaluation is 70%
- TIE BREAKER: In an event where more than one supplier progresses successfully through all stages of the evaluation process up to award, the company with the most financial strength will be considered for partnering with Transnet.

Key Performance Indicator	Evaluation Criteria and Scoring	Weight	Score
Provide cumulative number of years of leasing or operating capital-intensive assets in either one or a combination of the following industries: railways, airlines, mining, oil production and refinery, steel production and automobile manufacturing.	> 15 Years – 100 points 10 - 15 Years – 80 points 5 – 10 Years – 60 points 2 - 5 Years – 20 points 0 – 2 Years – 0 points	30%	Out of 100
Provide geographical locations i.e., countries, where the bidder has operated or leased capital-intensive assets in either one or a combination of the following industries: railways, airlines, mining, oil production and refinery, steel production and automobile manufacturing.	> 3 Geographical area – 100 points 2 – 3 Geographical areas – 80 Points 1 Geographical area – 60 Points 0 Geographical area – 0 Points	10%	Out of 100
List the number of lease contracts* in the past 10 years in either one or a combination of the following industries: railways, airlines, mining, oil production and refinery, steel production and automobile manufacturing, ports and maritime.	> 10 Contracts – 100 points 5 – 10 Contracts – 80 Points 3 – 4 Contracts – 60 Points 1 – 2 Contracts – 40 Points 0 Contracts – 0 Points	30%	Out of 100
Average asset utilisation ratio over the Bidder’s past three (3) financial years.  Asset utilisation is calculated as:  <i>Number of Active Assets/Total Number of Assets</i>	0.8 – 1.00 – 100 Points 0.50 – 0.79 – 80 Points 0.20 – 0.49 – 60 Points 0.00 – 0.19 – 0 Points	30%	Out of 100
<b>Total Score</b>			<b>100%</b>
<b>Minimum qualifying score required:</b>			<b>70%</b>



# REQUIRED CONTENT OF THE PROPOSALS

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## General Information

- Contact information
- Corporate Information

Form I: Ownership structure and Authorised Representative

Form II: Process Statement

Form III: Non-Disclosure Agreement

Form IV: RFP Declaration and Breach of Law Form

Form V: Central Supplier Database

Form VI: Disclosure of Contract Form (DPIP and FPPO)

Form VII: Bidder Confirmation on Due Diligence Information

Form VIII: Qualification Declaration

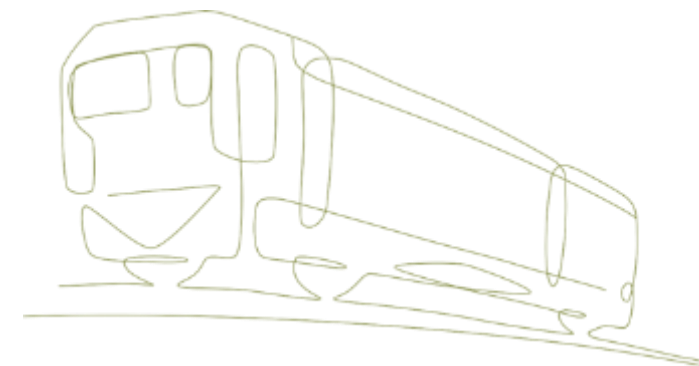
Form IX: Statement of Qualifications

Form X: Protection of Personal Information



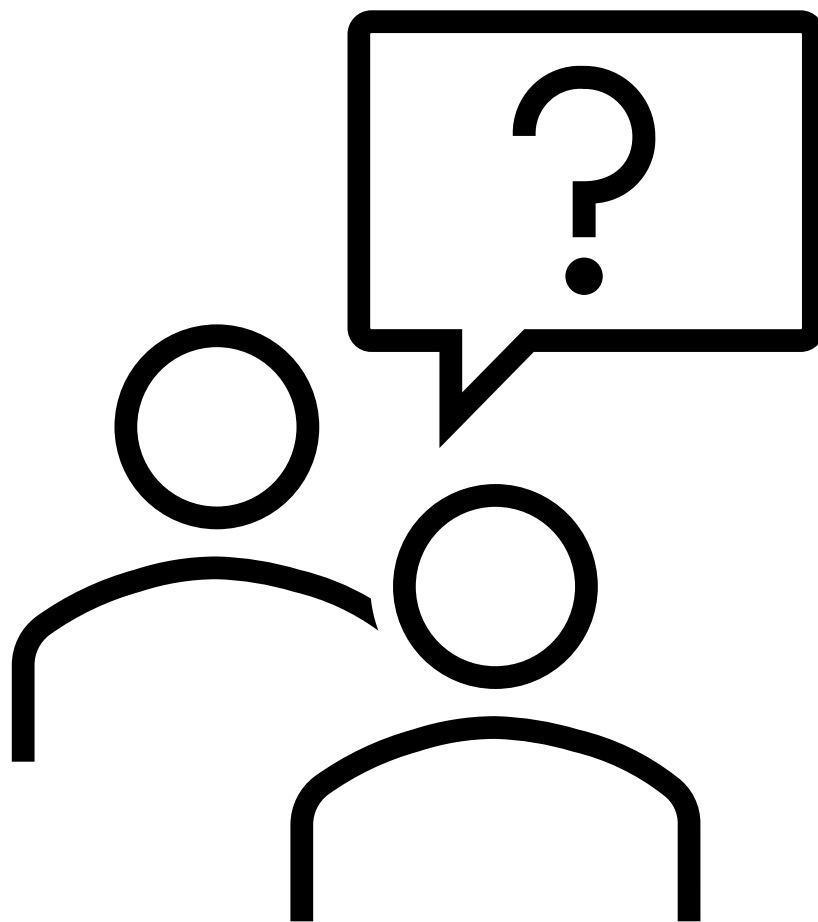
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# QUESTION AND ANSWER SESSION

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THANK YOU

